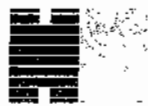


FINANCIAL REPORT
NORTHWEST ACADEMY
June 30, 2008

**NORTHWEST ACADEMY
FINANCIAL REPORT
Year Ended June 30, 2008**

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October 22, 2008

Independent Auditors' Report

Board of Education
Northwest Academy
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Northwest Academy (the "Academy"), as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

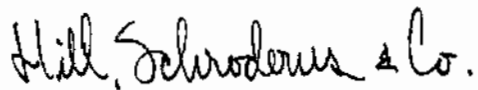
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Northwest Academy, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, on our consideration of Northwest Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Northwest Academy
Charlevoix, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwest Academy's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statement of receipts and disbursements – Fiduciary Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Northwest Academy's (the "Academy's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the Academy's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Academy's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Academy (instruction, support services, etc.), which are supported by the Academy's general revenues (unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the Academy. These assets are not presented as part of the government-wide financial statements.

Northwest Academy maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered a major fund.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The table below summarizes the Academy's net assets as of June 30, 2008 and 2007:

Northwest Academy June 30, 2008 and 2007

	2008	2007
Assets		
Current and other assets	\$ 196,077	\$ 204,532
Capital assets - net of accum dep	501,185	489,948
Total assets	697,262	694,480
Liabilities		
Current liabilities	83,503	90,007
Noncurrent liabilities	420,430	432,082
Total liabilities	503,933	522,089
Net Assets		
Investment in capital assets, net of related debt	64,896	44,779
Unrestricted	128,433	127,612
Total net assets	\$ 193,329	\$ 172,391

At the end of the fiscal year, Northwest Academy is able to report positive balances in both categories of net assets. The first portion of the Academy's net assets is its investment in capital assets (land, building and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets in providing educational services; consequently these assets are not available for future spending.

The remaining portion of net assets, unrestricted net assets, may be used at the Academy's discretion to meet ongoing obligations.

The results for the School as a whole are reported in the Statement of Activities, which is summarized below:

Northwest Academy
Year Ended June 30, 2008 and 2007

	2008	2007
Revenue		
Program revenue:		
Charges for services	\$ 2,839	\$ 6,235
Grants and contributions	80,125	35,953
General revenue:		
State aid, unrestricted	557,148	592,628
Interest and investment earnings	469	500
Other	6,609	1,787
Total revenues	<u>647,190</u>	<u>637,103</u>
Function/Program Expenses		
Instruction	348,191	350,307
Support services	234,556	193,834
Interest/fees on long-term debt	29,131	29,858
Depreciation (unallocated)	14,374	12,945
Total expenses	<u>626,252</u>	<u>586,944</u>
Change in net assets	20,938	50,159
Net assets - beginning of year	<u>172,391</u>	<u>122,064</u>
Net assets - end of year	<u><u>\$ 193,329</u></u>	<u><u>\$ 172,223</u></u>

As reported above, the School recorded \$626,252 of expenses. The majority of the Academy's revenues were from unrestricted state aid (86%) and grants and contributions (13%).

The Academy's decreased enrollment provided less state aid revenue than the previous year. It should also be noted that the Academy created a new position of School Leader in the current year, which resulted in an increase in support service expense. The creation of such a position is an integral part of the Academy's newly adopted strategic plan to increase enrollment and raise funds.

Fund Financial Analysis

As of year end, the governmental fund reported a fund balance of \$128,433 which is \$821 more than the beginning of the year. The slight increase was a result of the increased support services expense combined with a reduction in state aid.

General Fund Budgetary Highlights

Final budgeted expenditures were greater than originally budgeted to reflect the addition of the School Leader position.

Final revenues and expenditures were very close to the final budgeted amounts, with the exception of the donation of a sailboat to the school which increased both revenues and expenditures.

Capital Assets

At June 30, 2008 the School had \$640,733 invested in capital assets. The following table summarizes the capital asset activity for the year:

Northwest Academy Year Ended June 30, 2008

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2008</u>
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Buildings and improvements	540,122	-	-	540,122
Furniture and equipment	<u>6,933</u>	<u>25,611</u>	<u>6,933</u>	<u>25,611</u>
Total capital assets	622,055	25,611	6,933	640,733
Less accum. depreciation	<u>132,107</u>	<u>14,374</u>	<u>6,933</u>	<u>139,548</u>
Net capital assets	<u>\$ 489,948</u>	<u>\$ 11,237</u>	<u>\$ -</u>	<u>\$ 501,185</u>

Debt Outstanding

At the end of the year, the Academy had \$432,082 outstanding for a building capital lease and \$4,207 outstanding for a copier capital lease. Below is the debt activity for the year:

Northwest Academy Year Ended June 30, 2008

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Leases payable:				
Building capital lease	\$ 445,169	\$ -	\$ 13,087	\$ 432,082
Copier capital lease	<u>-</u>	<u>5,409</u>	<u>1,202</u>	<u>4,207</u>
Total leases payable	<u>\$ 445,169</u>	<u>\$ 5,409</u>	<u>\$ 14,289</u>	<u>\$ 436,289</u>

The reduction in debt was attributable to regular debt payments.

Economic Factors

The economic factors which are most impacting Northwest Academy with respect to this financial report are our sources of funding and student enrollment.

Northwest Academy is a public school academy. Sources of funding available to public school academies differ significantly from those sources available to traditional public schools. Public school academies are not allowed to float bonds to pay for facilities and extra needs. Approximately 90% of Northwest Academy's funds available to appropriate are generated by the State foundation grant. The grant is based on student enrollment and serves as our largest source of funding for both operations and facilities. Public school academies do receive services from the local Intermediate School District and those funds fall under the Title programs that we qualify to receive. These funds amount to less than 5% of our total income.

Over the past year, Northwest Academy has seen a decrease in enrollment which has followed several years of increases. For this reason, we have recently adopted a strategic plan which sets out concrete goals for improving curriculum, increasing enrollment, facility construction and renovation, and fundraising. Our continued funding challenge is due to the fact that public school academies do not receive funding from any other sources than the funds for the per pupil count. Since these funds pay for all of the facility and operating expenses that we incur, additional fundraising measures are currently being researched and implemented. In addition, we believe that by increasing the capacity of our facilities and improving our curriculum beyond state mandates, we will attract new students as well as new donors.

Financial Contact

The Academy's financial statements are designed to present users with a general overview of the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office at Northwest Academy.

NORTHWEST ACADEMY
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 90,787
Accounts receivable	226
Due from other governmental units	<u>105,064</u>
Total current assets	<u>196,077</u>
Noncurrent Assets	
Capital assets, non-depreciable	75,000
Capital assets, depreciable	565,733
Less: accumulated depreciation	<u>(139,548)</u>
Total noncurrent assets	<u>501,185</u>
Total assets	<u><u>\$ 697,262</u></u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accrued expenses	\$ 67,644
Capital leases, due within one year	<u>15,859</u>
Total current liabilities	83,503
Noncurrent Liabilities	
Capital leases, net of current portion	<u>420,430</u>
Total liabilities	<u>503,933</u>
Net Assets	
Investment in capital assets, net of related debt	64,896
Unrestricted	<u>128,433</u>
Total net assets	<u>193,329</u>
Total liabilities and net assets	<u><u>\$ 697,262</u></u>

NORTHWEST ACADEMY
Statement of Activities
Year Ended June 30, 2008

	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental Activities:					
Instruction	\$ 348,191	\$ 2,839	\$ 38,705	\$ 10,000	\$ (296,647)
Support services	234,556	-	22,120	9,300	(203,136)
Interest on long-term debt	29,131	-	-	-	(29,131)
Depreciation (unallocated)	14,374	-	-	-	(14,374)
Total governmental activities	<u>\$ 626,252</u>	<u>\$ 2,839</u>	<u>\$ 60,825</u>	<u>\$ 19,300</u>	<u>(543,288)</u>
General Revenues:					
State aid, unrestricted					557,148
Interest and investment earnings					469
Other					6,609
Total general revenues					<u>564,226</u>
Change in net assets					20,938
Net assets - beginning of year					<u>172,391</u>
Net assets - end of year					<u>\$ 193,329</u>

See accompanying notes to the basic financial statements.

NORTHWEST ACADEMY
Governmental Funds
Balance Sheet
June 30, 2008

	<u>General</u>
<u>Assets</u>	
Cash	\$ 90,787
Accounts receivable	226
Due from other governmental units	<u>105,064</u>
Total assets	<u><u>\$ 196,077</u></u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accrued expenditures	<u>\$ 67,644</u>
Total liabilities	67,644
Fund Balances:	
Unreserved:	
Undesignated	<u>128,433</u>
Total liabilities and fund balance	<u><u>\$ 196,077</u></u>

NORTHWEST ACADEMY
Governmental Funds
Reconciliation of Balance Sheet of Governmental Funds to Net Assets
June 30, 2008

Total Fund Balances - Governmental Funds	\$	128,433
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds
balance sheet

Cost of capital assets	640,733	
Accumulated depreciation		(139,548)

Long-term liabilities are not due and payable in the current period
and are not reported in the governmental funds balance sheet

Building capital lease	(432,082)	
Copier lease		(4,207)
		<hr/>

Total net assets - governmental activities	\$	193,329
		<hr/>

NORTHWEST ACADEMY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2008

	<u>General</u>
Revenues	
Local sources	\$ 48,477
State sources	577,210
Federal sources	18,118
Interdistrict and other sources	<u>3,385</u>
Total revenues	<u>647,190</u>
Expenditures	
Current:	
Instruction	348,191
Support services	234,556
Debt service:	
Principal	14,289
Interest	29,131
Capital outlay	<u>25,611</u>
Total expenditures	<u>651,778</u>
Excess of revenues over expenditures	(4,588)
Other financing sources	
Capital lease	<u>5,409</u>
Net change in fund balance	821
Fund balance - beginning of year	<u>127,612</u>
Fund balance - end of year	<u><u>\$ 128,433</u></u>

NORTHWEST ACADEMY
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	821
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay		25,611
Depreciation expense		(14,374)

Proceeds of long-term debt (including capital leases) are recorded as an other financing source for governmental funds, but are not recorded in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repaid		14,289
Capital lease proceeds		(5,409)
		8,880
Change in net assets - governmental activities	\$	20,938

NORTHWEST ACADEMY
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2008

	<u>Student Activities Agency Fund</u>
Assets	
Cash	\$ 8,025
Investments	<u>5,758</u>
Total assets	<u><u>\$ 13,783</u></u>
Liabilities	
Due to student groups	<u><u>\$ 13,783</u></u>

NORTHWEST ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northwest Academy (the "Academy") operates under a Board-Administrator form of government and provides education services to its residents. The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Academy:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the Academy and included in the Academy's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Academy has no component units.

Basic Financial Statements – Overview

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Academy first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Academy are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The Academy's major fund, as described below, is the General Fund. The Academy has no non-major funds.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the Academy.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Academy in a trustee or agency capacity for others and therefore are not available to support Academy programs. Since these funds cannot be used to address activities or obligations of the Academy, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The Academy presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the Academy for the students.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

Investments

Investments are stated at fair market value.

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the Academy as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years

Comparative Data

Comparative total data for the prior year is not included in the Academy's financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: BUDGETING/COMPLIANCE

The Academy is required under Public Act 621 to adopt a budget for the General Fund. An annual budget is adopted on a basis consistent with generally accepted accounting principles and State law for this fund. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. All annual appropriations lapse at year end.

The presentation of budgetary information is required for the General Fund. In the required supplemental information section, the Academy's actual and budgeted expenditures for the General Fund are presented. The Academy did not have an excess of expenditures over appropriations for the General Fund.

NOTE 3: CASH AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

Cash Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. At year-end, the carrying amount of the Academy's deposits for both governmental activities and fiduciary funds was \$98,712 and the bank balance was \$90,552. All of the bank balance was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Investments

Credit Risk – As of June 30, 2008, the Academy had an investment in Wachovia open-end mutual funds of \$5,758.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: CAPITAL ASSETS

Capital asset activity for the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Assets not being depreciated:				
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	540,122	-	-	540,122
Furniture and equipment	6,933	25,611	6,933	25,611
Subtotal	547,055	25,611	6,933	565,733
Accumulated depreciation:				
Buildings and improvements	125,174	12,943	-	138,117
Furniture and equipment	6,933	1,431	6,933	1,431
Subtotal	132,107	14,374	6,933	139,548
Net capital assets being depreciated	414,948	11,237	-	426,185
Governmental activities net capital assets	\$ 489,948	\$ 11,237	\$ -	\$ 501,185

Governmental activities depreciation expense was charged as follows:

Unallocated	\$ 14,374
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NOTE 5: SHORT-TERM DEBT – STATE AID NOTES

The Academy issues State Aid notes in advance of State Aid receipts, depositing the proceeds in the General Fund. This note is necessary because a State Aid payment is not received in September.

Short-term debt activity for the year ended June 30, 2008, excluding interest expense of \$112 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State Aid Note	\$ 8,380	\$ -	\$ 8,380	\$ -

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: LONG-TERM DEBT

The following is a summary of the Academy's governmental activities long-term debt transactions for the year ended June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Leases payable:					
Building capital lease	\$ 445,169	\$ -	\$ 13,087	\$ 432,082	\$ 14,056
Copier Lease	-	5,409	1,202	4,207	1,803
	<u>\$ 445,169</u>	<u>\$ 5,409</u>	<u>\$ 14,289</u>	<u>\$ 436,289</u>	<u>\$ 15,859</u>

Long-term debt payable at June 30, 2008, is comprised of the following individual instrument:

Building capital lease:

\$467,185 building capital lease in monthly installments of \$3,510 including interest at 6.5% through August, 2010. It is expected that the outstanding amount will be refinanced after that date. The lease is with a related party, Northwest Academy Building Corporation. The terms are identical to those that the lessor has with its lender.

\$ 432,082

Copier Lease:

\$5,409 copier capital lease in monthly installments of \$163 including interest at 8% through October 2010. The lease includes a \$1 bargain purchase option at the end of the lease.

4,207

Total long-term debt

\$ 436,289

The annual requirements to amortize all governmental obligations are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 15,859	\$ 28,215	\$ 44,074
2010	16,813	27,261	44,074
2011	<u>403,617</u>	<u>4,483</u>	<u>408,100</u>
Total	<u>\$ 436,289</u>	<u>\$ 59,959</u>	<u>\$ 496,248</u>

All long-term debt will be liquidated from the General Fund. There are limitations and restrictions contained in the various agreements. The Academy is in compliance with all significant limitations and restrictions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: OPERATING LEASES

In 2007, the Academy entered into a lease agreement for a parcel of land adjacent to the school to be used as playground space. This lease is considered for accounting purposes to be an operating lease. Lease expenditures for the year ended June 30, 2008 were \$3,600. The lease term is one year and is renewable at the end of each year unless terminated by either party.

NOTE 8: RELATED PARTIES

In addition to Northwest Academy Building Corporation noted in the Long-Term Debt Note, the Academy is related to North West Bookkeeping who contracts with the Academy for most of its personnel. The contractor also keeps the accounting records for the Academy. Payments to North West Bookkeeping during the fiscal year ended June 30, 2008 were \$462,286.

NOTE 9: RISK MANAGEMENT

The Academy carries commercial insurance for all risks of loss. The Academy pays an annual premium for its general insurance coverage.

REQUIRED SUPPLEMENTAL INFORMATION

NORTHWEST ACADEMY
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 9,795	\$ 38,203	\$ 48,477	\$ 10,274
State sources	608,024	577,210	577,210	-
Federal sources	15,820	18,118	18,118	-
Interdistrict and other sources	3,289	2,354	3,385	1,031
	<u>636,928</u>	<u>635,885</u>	<u>647,190</u>	<u>11,305</u>
Total revenues				
	<u>636,928</u>	<u>635,885</u>	<u>647,190</u>	<u>11,305</u>
Expenditures				
Current:				
Instruction:				
Basic programs	311,600	318,192	317,008	(1,184)
Added needs	41,879	31,183	31,183	-
Support services:				
Instructional staff	6,757	11,220	11,219	(1)
General administration	49,964	70,998	71,405	407
School administration	86,451	80,604	80,654	50
Business services	12,026	11,002	11,002	-
Operation and maintenance	35,690	33,082	36,591	3,509
Central	7,931	23,488	23,685	197
Debt service:				
Principal	16,769	16,687	14,289	(2,398)
Interest	29,858	29,027	29,131	104
Capital outlay	-	10,202	25,611	15,409
	<u>598,925</u>	<u>635,685</u>	<u>651,778</u>	<u>16,093</u>
Total expenditures				
	<u>598,925</u>	<u>635,685</u>	<u>651,778</u>	<u>16,093</u>
Excess of revenues over expenditures	38,003	200	(4,588)	(4,788)
Other financing sources				
Capital lease	-	-	5,409	5,409
	<u>38,003</u>	<u>200</u>	<u>821</u>	<u>621</u>
Net change in fund balance				
	<u>38,003</u>	<u>200</u>	<u>821</u>	<u>621</u>
Fund balance - beginning of year	119,859	127,611	127,612	1
	<u>119,859</u>	<u>127,611</u>	<u>127,612</u>	<u>1</u>
Fund balance - end of year	\$ 157,862	\$ 127,811	\$ 128,433	\$ 622
	<u>\$ 157,862</u>	<u>\$ 127,811</u>	<u>\$ 128,433</u>	<u>\$ 622</u>

OTHER SUPPLEMENTAL INFORMATION

NORTHWEST ACADEMY
Other Supplemental Information
Statement of Account Balances
Fiduciary Fund
Year Ended June 30, 2008

	Balance June 30, 2007	2007-2008		Balance June 30, 2008
		Receipts	Disbursements	
Arts & Theater	\$ 511	\$ -	\$ -	\$ 511
Athletics	(73)	2,173	1,713	387
Class of 2008	117	4,096	4,213	-
Class of 2009	335	2,870	1,611	1,594
Class of 2010	28	1,156	406	778
Class of 2011	278	838	181	935
Class of 2012	-	48	-	48
Class of 2013	-	49	-	49
Community Service	104	-	-	104
Friends of NWA	7,205	341	7,546	-
Friends of NWA:				
Brya/Sciaccia	100	-	100	-
Griffin	200	-	200	-
Metzger/Themm	140	-	140	-
Graduation	20	140	140	20
Lunch	195	535	259	471
Michelle's Class	686	1,428	2,114	-
Music	(214)	1,174	960	-
Off Campus Educational Activities	71	-	-	71
Playground Equipment	2,071	229	2,300	-
Prom & Dances	301	-	100	201
Saunders' Class	-	190	-	190
School Store	122	95	63	154
Science	100	-	-	100
Spanish	78	3,053	1,575	1,556
Student Assistance	110	-	-	110
Student Government	261	65	60	266
Technology	200	-	56	144
Vine/Malewitz	125	-	-	125
Yearbook	860	1,323	1,994	189
Bank Interest / Charges	32	-	10	22
Luke Pace Memorial Fund	7,057	-	1,299	5,758
	<u>\$ 21,020</u>	<u>\$ 19,803</u>	<u>\$ 27,040</u>	<u>\$ 13,783</u>
Total	<u>\$ 21,020</u>	<u>\$ 19,803</u>	<u>\$ 27,040</u>	<u>\$ 13,783</u>

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



October 22, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
Northwest Academy
Charlevoix, Michigan

We have audited the financial statements of the governmental activities and the major fund of Northwest Academy as of and for the year ended June 30, 2008, which collectively comprise Northwest Academy's basic financial statements and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwest Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northwest Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency and another deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

The Academy has improved the documentation and support for amounts paid from the Trust and Agency Fund. However, documentation supporting the receipt of monies into the fund continues to be lacking.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Board of Education
Northwest Academy
Charlevoix, Michigan

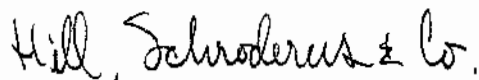
The School District does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to recently issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the School District's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes and State of Michigan FID reporting is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE NORTHWEST ACADEMY FOR THE YEAR ENDED JUNE 30, 2008.

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE NORTHWEST ACADEMY FOR THE YEAR ENDED JUNE 30, 2008.